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Increased Chinese engagement in South Africa's economy – strategies, opportunities and future implications

China and South Africa's relationship has deepened in recent years. Extensive political structures, such as South Africa's Comprehensive Strategic Partnership agreement with China, provide opportunities for bettering local development. Through various partnerships, initiatives and agreements, trade between China and South Africa has grown immensely - totalling ZAR 270 billion in 2013 with foreign direct investment (FDI) booming across sectors. This policy brief discusses the role of *finance, telecoms, infrastructure, energy and mining, manufacturing, and tourism* in order to better grasp China-South African economic engagement and identify ways in which such investments can benefit local development.

Finance

Given South Africa's relatively sophisticated financial markets, political stability, unsaturated markets and robust legal system, Chinese banks have shown significant interest in the South African financial sector. As early as October 2007, the Industrial and Commercial Bank of China (ICBC) announced to take a 20 per cent equity stake in South Africa's Standard Bank for US\$ 5.5 billion, the largest share of FDI into South Africa at the time. In 2014, ICBC purchased a 60 per cent share in the South African-headquartered Standard Bank's United Kingdom (UK) subsidiary.

Since 2009, the pace of Chinese investment in South Africa has increased, with more Chinese banks entering the country. In September 2011, the Development Bank of South Africa and the China Development Bank signed a US\$ 2.5 billion financial co-operation deal, in which the two banks entered into dual investments in mining, infrastructure, transport and various other projects.

During the first South Africa-China Capital Market Forum held in August 2013, China and South Africa strongly expressed their hopes to foster greater long-term financial markets co-operation. In 2013, Nedbank Group and the Bank of China entered into a strategic business co-operation agreement. In 2014 this led to the co-financing of a cement company - a joint

venture with Jidong Development Group and the China-Africa Development Fund (CAD Fund) who are majority shareholders with 51 per cent.

Since this joint venture is to operate in the Limpopo province, one of South Africa's impoverished provinces, it has the potential to aid in development, providing employment opportunities in lower income areas contributing toward improvements in basic infrastructure.

While financial investments seem impressive, actual investment results might not be as favourable as originally expected. For example, the ICBC-Standard Bank deal has experienced slow revenue generation during the past six years, despite initial expectations. This is due to the global financial crisis of 2008 as well as government red tape from both sides which delayed the process. Nevertheless, despite such obstacles, the rapidly growing flow of trade and investments between China and South Africa point toward increased future growth in this area of economic co-operation.

Telecoms

Chinese enterprises play a major role in financing and supplying telecom infrastructure across Africa, now leading Europe and the United States of America in this sector. Within South Africa specifically, Chinese companies, Huawei and ZTE, as equipment suppliers, accounted for more than 50 per cent of the South

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African telecoms market in 2013. Chinese enterprises have extensively utilised government subsidies and government-to-government relations to access the market. Competitive pricing and collaboration with local telecom operators have helped Chinese companies gain market share.

Chinese Telecoms investments in South Africa include: ZTE's US\$ 378 million investment in Cell C (2010) and Huawei's US\$ 211 million investment in Telkom SA (2008). Huawei, ZTE and other Chinese companies have increased market competition in the telecoms industry, by reducing prices and increasing consumer choice. Huawei aims to help the South African government achieve 100 per cent broadband penetration by the year 2020 (from the 2013 figure of 26 per cent).

Infrastructure

Unlike many other African countries, in which Chinese infrastructure projects begin from scratch, co-operation with South Africa is mainly based on facility upgrades and technology exchanges. For instance, in March 2013, Transnet signed an agreement with China Development Bank (CDB) to cooperate in upgrading infrastructure projects. According to the South African Department of Transport estimates, it will require US\$ 40 billion for upgrading the entire national system, including US\$ 6.5 billion on highway repairs, US\$ 7.9 billion on passenger traffic and US\$ 25 billion on high-speed rail. China South Railway, a Chinese state-owned transport company provided ten freight locomotives, electricity engines for general shipping, during

2013. Both financed by CDB, China South Railway won a US\$ 2.1 billion bid and China North Railway obtained an US\$ 8.8 billion contract in 2014 in Johannesburg. The South African transportation ministry also planned three high-speed railways to connect 12 cities and six border towns.

Chinese funding sources include the China-Africa Development Fund (CAD Fund) and potentially from the (as yet not running) BRICS Development Bank. South Africa's key policy document for development, the National Development Plan, has earmarked significant spending on infrastructure in some of the poorest parts of the country. This may open the way for further collaboration between China and South Africa in the areas of water, power, transport, education and medical infrastructure.

Energy and mining

While South Africa has traditionally relied on coal to generate electricity, the government has increasingly sought alternative energy sources. In this context, Chinese private enterprises play a major role in the renewable energy field. Since 2012 Chinese renewable energy enterprises such as GCL-Poly Energy Holdings Limited and Powerway Renewable Energy Co. Ltd, began to invest in South Africa. Following these pioneers, more Chinese energy companies have moved into the South African market.

According to the statistics from the embassy of China in South Africa, Chinese companies account for nearly 50 per cent of market share. **Table 1** shows that Chinese Photovoltaic (PV) solar companies built not only PV solar stations but also factories

Table 1: Chinese Photovoltaic (PV) in South Africa

Chinese investors	Period of commencement	Projects	South African Partner	Province
Trina Solar	2013.1	Two PV solar plants, 30MW in total	Gestamp	Northern Cape
BYD Electric Power	2013.9	75MW PV solar station	Artsolar	Northern Cape
Longyuan Power	2013.10	Two 244MW wind power installations	Mulilo Renewable Energy	Northern Cape
JA SOLAR	2014.1	150MW PV solar modules factory	Powerway PV SA	Western Cape
NARI Group	2014.3	Vesco substation		Gauteng
Sungrow Power	2014.3	PV inverter factory	Powerway PV SA	Western Cape
Hareon Solar	2014.6	Co-established Hareon solar SA	African Mineral & Energy Development	Gauteng
Jinko Solar	2014.8	120MW PV solar modules factory		Western Cape

Source: Embassy of the People's Republic of China in the Republic of South Africa, 2014

Table 2: Chinese investment in South Africa's mining industry

Chinese Enterprises	Time	Investment
China African Precious Metals	2013.3	Purchased 74% share of Pamodzi Gold Orkney with 15 million USD
Jin Jiang Mining Group	2013.4	Added share of NKWE Platinum Limited up to 24.16%
He Bei Iron Steel	2013.8	Purchased 74.5% stake of PMC around 480 million USD
Qixing Iron Tower	2013.11	Controlled Stonewall and Galabyte at 140 million USD
Baiyin Nonferrous Metals	2014.5	Controlled Sibanye with 20% share
Metallurgical Corp. of China	2014.10	Limpopo energy & metallurgy SEZ

of PV modules and inventors. As a result of these activities, South Africa has been incorporated into the global value chain for renewable energy technology.

The bi-lateral co-operation of nuclear power has also improved. On 7 November 2014, the "Inter-Governmental Framework Agreement on Nuclear Cooperation" was signed by the ministers of the two nations, which allowed China's corporations to participate in the bid for the South African 2015 nuclear power electricity project

Chinese investment in the mining industry also remains significant. However, due to the global financial crisis in 2008, Sinosteel Corporation and other companies within the steel industry ran into trouble because of hefty upfront investments and low return. Following this, Chinese enterprises turned their attention to the precious metal sector. (See **Table 2**)

Chinese investment in this sector can contribute to South Africa benefitting from the mineral programme through technology transfers and the upgrading of infrastructure; furthermore, benefit can be derived from the export of value added products.

Due to the downturn in the price of gold and platinum, Chinese mining investments have become cautious when entering new markets. Rather than being a single investor, Chinese companies prefer co-operating with international partners through shareholding or joint tenders.

Manufacturing

South Africa has exerted itself to create a better manufacturing environment through providing various incentives in which Chinese and local firms co-operate in a number of creative ways. China's rising labour costs have led Chinese manufacturers to relocate their plants to outside China. South Africa is attractive to Chinese investors because it can be used

as a halfway production base for Chinese enterprises who want to enter both African markets and to European markets via preferential trade agreements. The label "Made in South Africa" can contribute to South Africa's exports to the global market. South Africa can also expect job creation and technology transfer. Since South Africa's manufacturing sector has been in severe decline, it is hoped that Chinese investment, capital and technology can create new opportunities.

In 2013, for instance, a home appliance manufacturer, Hisense, expanded its facilities in Atlantis, in the Western Cape. Hisense products vary from the entry level to the high-end of the market. The company has hired approximately 500 local workers and now manages the entire production rather than merely importing components from China and assembling them.

The production has increased from 750 TV sets per day in 2013 to more than 1000 in 2014. Hisense now ranks second in the high-end TV market in South Africa. Co-operation is also evident in South Africa's automobile industry. The sector was hit by the financial crisis of 2008 and its trade deficit has increased due to replacement parts being imported from China. In this context, Chinese car manufacturers such as Beijing Automobile Works (BAW) and First Automobile Works (FAW) entered the South African market and are expected to reignite the industry by extending local procurement.

In addition to financial incentives such as tax exemption [for example The Department of Trade and Industry provides Hisense, a Chinese electronics plant, based outside Cape Town with a Manufacturing Investment Programme (MIP) reimbursable cash grant], the government has planned to provide a one-stop service to foreign investors through Industrial Development Zones and Special Economic Zones (IDZs and SEZs).

Tourism

Tourism has recently received increased attention and contributed more than 9 per cent to South Africa's GDP and generated 1.4 million jobs in 2013. South Africa has become a preferred destination for Chinese tourists and China is now the fourth largest inbound tourism market to South Africa. South Africa's wild life, culture and shopping attract a growing number of Chinese tourists. The number of inbound Chinese tourists reached more than 150,000 in 2013. South African Airways (SAA) introduced a direct flight between Beijing and Johannesburg which contributed not only to bi-lateral trade but also to tourism (the flight has since been cancelled due to financial restructuring).

Conclusion

Chinese investments in several main South African sectors are key drivers in closer China-South Africa ties. This increasingly close-knit relationship has been strengthened through various political frameworks. The relationship is increasingly taking on the guise of a human development partnership, ranging from primary to tertiary education. The key question for South Africa is how to comprehensively maximise China's active involvement in the aforementioned sectors and ensure that it makes a long-lasting impact on South African society. In terms of engaging foreign investors, decisions are made at national level and the perspectives of local government and other societal actors, like labour – the groups directly affected by investors – are not included. Collaboration between all the stakeholders will increase benefits for all parties. Ample opportunities are being offered by engagement with China, it is time for South Africa to maximise its gain from the relationship with China.

Recommendations

1. **Finance** – Revenue returns of various investments carried out by Chinese and South African banks should be traced on an annual basis. The information should be made accessible to the public and private sectors as well as to civil society. This will facilitate the growing knowledge of investments and their effects, which will in turn allow for better decision-making.
2. **Telecoms** – Chinese companies should continue to contribute to technology and skills transfer to increase expertise and reduce the technology gap in the telecoms industry. South African state and private actors need to

maximise their engagement with China by insisting on such transfers and allocating them effectively.

3. **Manufacturing** – South African and Chinese companies need to continue to find synergies and co-operative engagement should be supported by both countries. South Africa's high labour costs and low productivity levels (when compared to competitors in south-East Asia and South America) will continue to pose a barrier to engagement.
4. **Tourism** – South Africa's immigration regulations with regard to tourists should be eased. Chinese tourists are already choosing alternative destinations like Kenya and Zambia, which have started exerting themselves to increase Chinese tourist arrivals.

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